

Banking 101

Presentation to the House Select Committee on Banking and
Loan Origination Fee Reform by
Commissioner of Banks Ray Grace and
Deputy Commissioner Katherine M.R. Bosken
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north carolina
COMMISSIONER OF BANKS



History of State Financial Supervision in NC

- 1927 – Bank supervision added to Banking Department within Corporations Commission
- 1931 – Banking Department becomes its own agency
- 1961 – Consumer finance supervision added
- 1987 – Mortgage registration added
- 1989 – Refund anticipation loan facilitators added
- 1997 – Check cashing supervision added
- 2001
 - Savings institutions supervision transferred
 - Non-bank trust companies added
 - Mortgage supervision added
 - Money transmitter supervision added
- 2009 – Federally-compliant mortgage supervision added
- 2015 – Mortgage origination support registration added



Dual Banking System

- In the U.S., banking is regulated by both Federal and State governments.
 - Each government has its own set of laws, regulations, and policy statements.
 - Federal regulators generally issue joint regulations and policy statements, but each agency has its own examination manual.
- New banks must choose: National or State charter.
 - Banks are insured through FDIC.
 - Federal Reserve membership is optional.
 - Some banks will organize a holding company.



Types of Banking Institutions

National Charters

- National Bank – commercial banks
 - E.g. Wells Fargo, Bank of America, Citibank, JP Morgan
- Federal Savings Associations
 - E.g. AIG Federal Savings Bank, Synchrony, USAA
- Credit Unions
 - E.g. Navy Federal

State Charters

- Commercial Banks
 - E.g. BB&T, First-Citizens Bank, North State Bank
 - Suntrust, Fifth Third, South State (other states)
- Savings Banks
 - E.g. KS Bank, Roxboro Savings Bank
- Savings & Loan Associations
- Industrial Loan Companies
 - E.g. American Express Centurion, GE Capital, Sallie Mae
- Credit Unions
 - E.g. State Employees Credit Union, City of Raleigh Credit Union



Bank Holding Co., Financial Hold Co., & SIFIs

Bank holding companies

- A company that owns or controls one or more U.S. banks.
 - Usually called “Bancshares” or “Bancorp.”
 - “Source of strength” to the bank subsidiary.
 - No one (in their right mind) becomes a bank holding company by accident.
- Federal Reserve regulates bank holding companies.
 - Even if the bank is a non-member bank, Fed still has some oversight.
 - Bank holding companies are limited to activities “closely related to banking.”

Financial holding companies

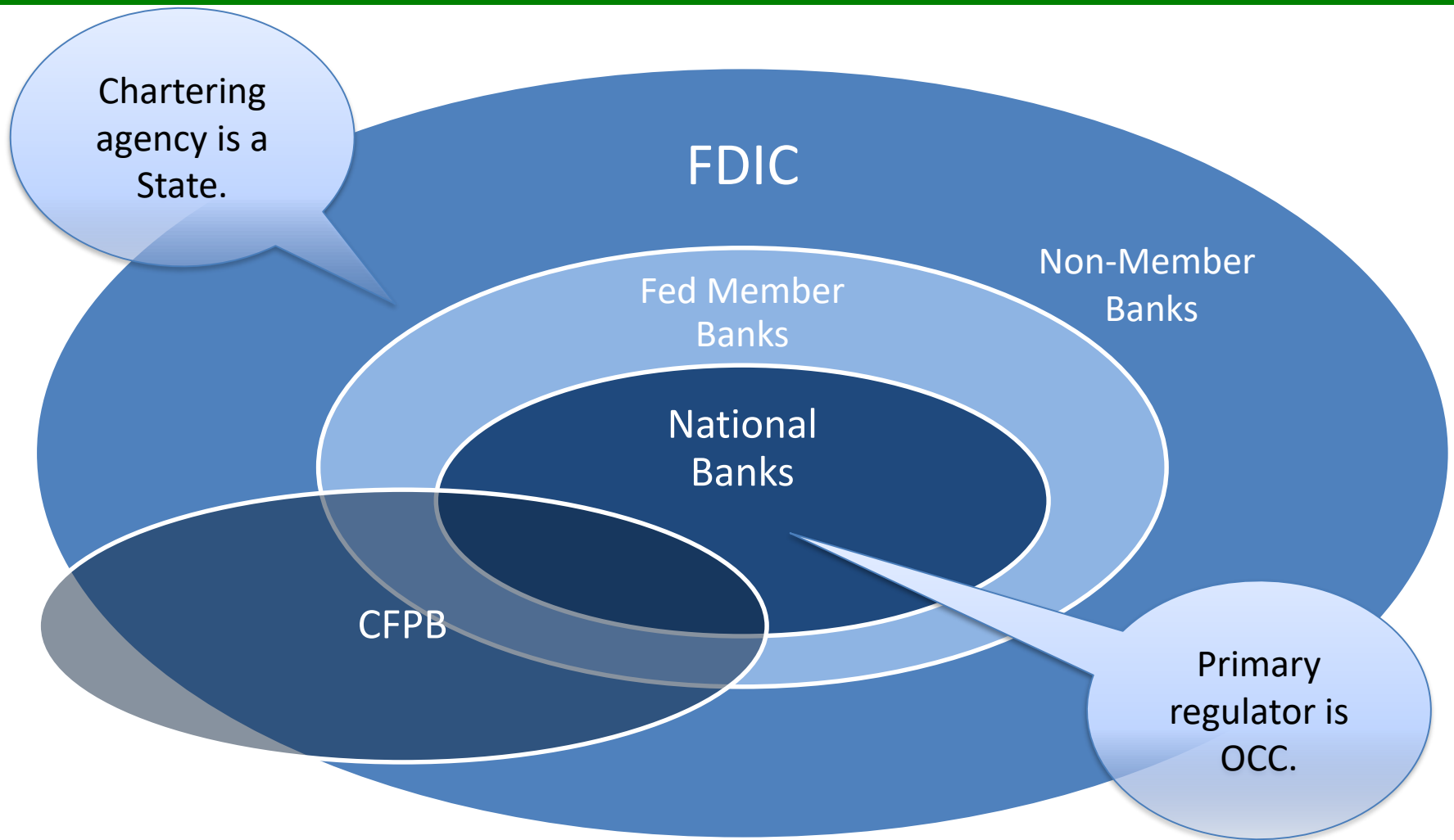
- Bank holding company *plus*: Expanded universe of allowed activities.
- All Bank subs must be well-capitalized and well-managed, with satisfactory or better CRA rating.

SIFIs (Systemically Important Financial Institutions)

- Bank and Non-bank organizations (mainly insurance companies) that will impact the economy if they fail.



Members, Non-Members, and the CFPB



What Do All These Regulators Do?

1. Examinations (N.C. Gen. Stat. § 53C-8-1, *et seq.*)
 - Banks are examined every 12 – 18 months for “safety and soundness.”
 - State or federal personnel, working jointly, physically visit the bank’s headquarters to review:
 - CAMELS!
 - » Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity (to interest rate risk)
 - Consumer compliance exams are conducted separately.
2. Facilitate communication between bank and consumer.



What Law Applies to this Institution?

Institution Type	Primary State Law	Primary Federal Law
NC Chartered Commercial Banks	N.C. Gen. Stat. ch. 53C; 04 NCAC 03C	FDI Act, 12 U.S.C. 1811, et seq.; 12 CFR 300-399
NC Chartered Savings Banks	N.C. Gen. Stat. ch. 54C; 04 NCAC 16	FDI Act, 12 U.S.C. 1811, et seq.; 12 CFR 300-399
National Banks	State consumer protection laws.	National Bank Act, 12 U.S.C. 21, et seq., 12 CFR 1-128
National Savings Associations	State consumer protection laws.	Home Owners' Loan Act, 12 U.S.C. 1464, et seq.; 12 CFR 141 - 199
Other State-Chartered Institutions doing business in NC	State consumer protection laws.	FDI Act, 12 U.S.C. 1811, et seq., 12 CFR pt. 300-399
Holding Company	N.C. Gen. Stat. ch. 53c, art. 10	BHC Act of 1956, 12 U.S.C. 1841, et seq.; 12 CFR pt. 225



Where Can I Find Banking Laws?

North Carolina

- <http://www.nccob.gov/public/FinancialInstitutions/Banks/BanksLC.aspx>

FDIC

- <https://www.fdic.gov/regulations/laws/rules/>

Federal Reserve

- <http://www.federalreserve.gov/bankinfo/reg/regist.htm>

CFPB

- <http://www.consumerfinance.gov/regulations/>

NCUA

- <http://www.ncua.gov/Legal/Pages/default.aspx>

What Other Laws Might Apply?

- State corporation laws
 - NCGS Ch. 55
- State commercial laws
 - UCC, NCGS Ch. 25
 - Especially Articles 3, 4, 4A, and 9.
- State lending laws
 - NCGS Ch. 24, and NCGS 24-1.1
- State foreclosure laws
 - NCGS Ch. 45
- State consumer protection laws
 - NCGS Ch. 75



NCCOB Staff

Composition

- NCCOB has 90 employees:
 - 39 depository examiners
 - 2 bank applications staff
 - 23 non-depository examiners
 - 8 non-depository licensing staff
 - 5 legal staff
 - 13 other personnel

Responsibilities

- Supervising, as of 2018, more than:
 - 45 financial institutions
 - 45 banking holding companies
 - 600 mortgage companies
 - 15,000 mortgage loan originators
 - 20 mortgage origination support registrants
 - 65 reverse mortgage lenders
 - 100 money transmitters
 - 70 consumer finance companies
 - 275 refund anticipation loan facilitators
 - 200 check cashers



State Banking Commission

Composition

- Commission has 15 members:
 - State Treasurer, by virtue of the office
 - 12 gubernatorial appointees
 - 3 practical bankers
 - 1 consumer finance licensee
 - 8 public members
 - 2 legislative appointees
 - Both practical bankers

Responsibilities

- “The Commission is authorized the supervise, direct, and review the exercise by the Commissioner of all powers, duties, and functions vested in or exercised by the Commissioner under the banking laws of this State.” NCGS 53C-2-1(e).
- Contested case hearings and appeals – 53C-2-6(b).
- “The Commission may conduct public hearings on matters within its purview.” NCGS 53C-2-6(d).
- Meet at least 1x every 3 months.



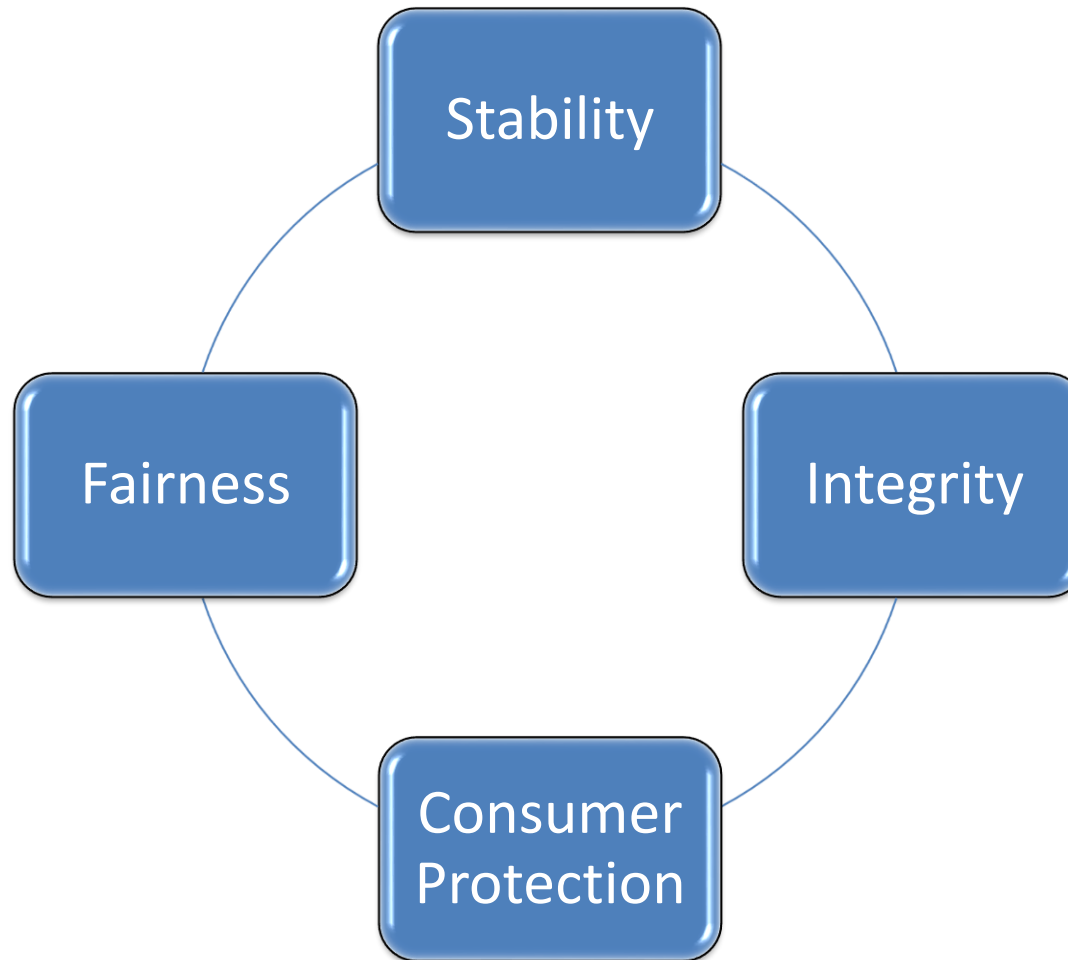
What does NCCOB do?

NCCOB licenses, supervises, and examines:

- Banks (including commercial banks and savings institutions)
- Consumer Finance lenders
- Residential mortgage lenders, brokers, originators, servicers, and mortgage origination support registrants
- Money Transmitters
- Check Cashers
- Reverse Mortgage lenders
- Refund Anticipation lenders
- Non-depository Trust companies



Why does NCCOB regulate all of this?



How does OCOB accomplish its work?



Other NCCOB Responsibilities

NCCOB also:

- Proposes new rules and rule modifications to implement NC statutes
- Facilitates resolution of consumer complaints against regulated entities
- Investigates violations of and administratively enforces the banking and financial services laws
- Provides education and financial literacy programs



2018-2019 Initiatives

- Streamline examinations and licensing process by leveraging computer-assisted analytics
- Increase efficiency through the use of off-site resources
- Coordinate extensively with sister states in examination and licensing multi-state entities
- Improve content and delivery of examiner training, and expedite paths to expertise
- Defend state legislative choices against broad federal preemption



How is NC doing today?

- Top 5 state based on deposits and assets
 - But overall number of banks is down:
 - 91 state-charters in 2006
 - 41 state-charters 2018
- Assets under supervision are up YoY, and growing
- Interest margins are recovering, but can still improve
- New banks are back – American Banker “De Novo Central”
- Finalized right-sizing our state regulations; encouraging other states to do the same
- M&A activity pace was higher in 2017, slowed in 2018



Questions?



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